THE POWER OF BEING UNDERSTOOD

TAX BENEFITS AVAILABLE FOR INVESTING IN PUERTO RICO QUALIFIED OPPORTUNITY ZONES

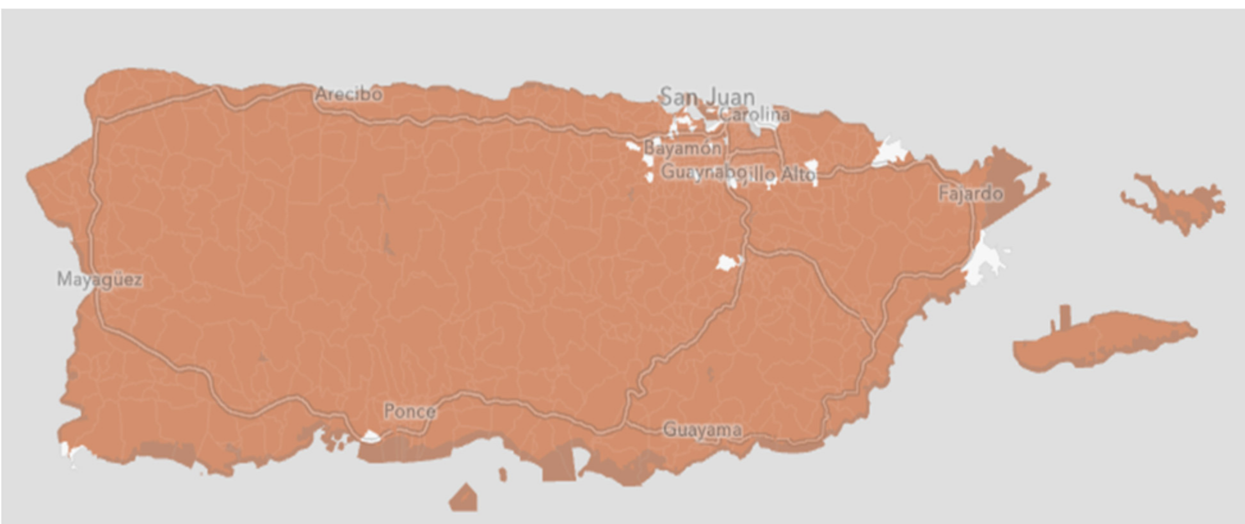
Year 2018 Issue #6

Introduction

Opportunity zones were introduced by the Tax Cuts and Jobs Act (TCJA), seeking to encourage economic growth, job creation, and investment in designated distressed communities (i.e., qualified opportunity zones) by providing federal income tax benefits to taxpayers who invest in businesses located within these zones.

Opportunity Zones in Puerto Rico

Opportunity zones are economically distressed communities that have been nominated for that designation by a State, and that have been certified as such by the U.S. Treasury. ***There are qualified opportunity zones in the 78 municipalities of Puerto Rico.*** Opportunity zones in Puerto Rico are identified in red below.



What are the Tax Benefits of Opportunity Zones?

The opportunity zones provision allows taxpayers to defer tax due on capital gains upon a sale or disposition of property if said capital gain is reinvested in a "Qualified Opportunity Fund."

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TAX BENEFITS AVAILABLE FOR INVESTING IN PUERTO RICO QUALIFIED OPPORTUNITY ZONES (CONTINUED)

A Qualified Opportunity Fund ("QOF") can be a corporation or partnership that is used as a vehicle to invest in eligible property located in a qualified opportunity zone. Once formed, the corporation or partnership must self-certify as a QOF by filing Form 8996 and attaching said form to its duly filed federal income tax return for that year.

Tax on capital gains may be deferred if said gains are reinvested in a QOF within a period of 180 days from the date of the sale. In turn, the QOF must invest 90% of its assets in business located or property used in a qualified opportunity zone.

Tax Deferral of Capital Gains

Under the opportunity zones provisions, capital gains are deferred upon the earlier of December 31, 2026, or the date the QOF investment is sold.

Investments in a QOF that are held for at least five years are entitled to a 10% basis increase. As a result, only 90% of the deferred gain will be taxed.

In the case of investments held for at least seven years, a basis increase of 15% is allowed resulting in only 85% of the deferred gain being taxed.

Exclusion of Appreciation on Investment

If an investment is held in a QOF for at least ten years, any appreciation on the initial investment will qualify for a permanent exclusion of gross income, therefore the post-acquisition gains would not be subject to tax

At RSM Puerto Rico we are available to advise our clients on how to take advantage of the opportunity zones tax benefits. Please contact your tax advisor with any questions.

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